

INVITATION FOR OFFER

IFO NO: MMS-RIK-2000-GOMR-004

Introduction

The Minerals Management Service (MMS) of the U.S. Department of the Interior is soliciting written offers for the competitive bid of Royalty Gas produced from Federal offshore leases in the Gulf of Mexico delivered into the Matagorda Island Offshore Operating System (MOPS). The closing date for receipt of offers is July 24, 2000, at 1:00 p.m. Eastern Time. The bid will be awarded by July 25, 2000, 1:00 p.m., Eastern Time.

The Royalty Gas available to the successful offeror will be the Government's share of production from the Gulf of Mexico Federal Leases identified in Exhibit A. Initial deliveries of Royalty Gas to the successful offeror will commence August 1, 2000. The Royalty Gas delivery period will be for a term of three months ending October 31, 2000. Subsequent solicitations are anticipated for November – March and April – October terms.

The specified delivery points for Royalty Gas is the inlet flange or weld of the applicable NNG metering facilities; either from any lateral line or a direct connection to a platform. The MOPS services the Tivoli Gas Plant area. Pipeline interconnections at Tivoli are Florida Gas Transmission, Houston Pipeline, Coral Pipeline, Midcon Pipeline, NGPL, and Koch.

Transportation and Scheduling of Royalty Gas

The Operators of the selected leases will deliver Royalty Gas to the successful offeror at the same frequency as it is produced from the property. Unless otherwise notified, this is assumed to be daily. The successful offeror, at its expense, shall make all necessary arrangements to receive delivery of Royalty Gas at the NNG Point of Injection (POI). The successful offeror is not responsible for costs of transportation upstream of the NNG POI.

MMS negotiated a transportation contract on the MOPS. The MMS will give the successful offeror an Agency Authority designating them to act as our agent, to perform the obligations of Shipper/Operator with Northern Natural Gas (NNG). The successful offeror will assume all responsibilities under the MMS transportation contract with NNG as a shipper of royalty gas. NNG will invoice successful offeror directly for the cost of transportation, and the successful offeror, as MMS' agent, is responsible for paying NNG for the actual cost of transportation. The successful offeror will provide the MMS Contracting Officer, or designee, copies of any associated documents (e.g., pipeline statements or invoices) within 5 days of receipt. MMS will reduce the monthly Royalty Gas invoice by the NNG invoiced transportation expense.

The MMS will designate the successful offeror to act on its behalf in carrying out the roles and responsibilities outlined for the "Lessor" in a letter that will be sent to all Operators of leases in this program. This letter is included as Exhibit C. Specifically, the successful offeror will be responsible for performing the roles outlined for the Lessor in the following sections of the letter: 1) Royalty Gas Delivery; 2) Lessor Obligation to Take; 3) Communication; and 4) Lessor Point of Contact (Scheduling, Transportation, and Imbalance Issues).

The successful offeror agrees to take 100 percent of the Royalty Gas delivered to it at the POI for the entire delivery period of this contract. The successful offeror, through customary industry practice set forth by GISB and the Council of Petroleum Accountants Societies (COPAS) in nominating and scheduling transportation services, will communicate directly with the Operator and make arrangements for the delivery and transfer of Royalty Gas from these leases. The Operator will use reasonable efforts,

consistent with industry practice, to inform the successful offeror regarding significant changes in gas production levels. The Operator will notify the successful offeror in the event of a production shut-in.

No later than 8 calendar days before the first day of each month, the Operator will notify the successful offeror of the daily Royalty Gas volumes and qualities anticipated for the following month of production. This will continue for each month of the Royalty Gas Delivery Period. The successful offeror understands that any such estimate is not a warranty of actual deliveries to be made but is provided to facilitate planning of delivery of Royalty Gas.

Imbalances in the delivery of Royalty Gas to the successful offeror will be monitored and jointly resolved by MMS and the Operator by adjustments in the volume of Royalty Gas delivered to the successful offeror in subsequent months. These adjustments will be reflected in communications from the Operator to the successful offeror regarding the first of month availability of Royalty Gas.

NNG does not have any planned maintenance during the term of this contract. Maintenance updates can be found on their website at www.ets.enron.com. NNG does not participate in Operational Balancing Agreements. Their policy is to monitor balances in real time and act on a proactive basis.

Offers

Offerors must be prequalified to submit bids. The prequalification process is described in the MMS Website: www.rmp.mms.gov/RIKweb/Notices and Documents. The successful offeror must have a signed GISB-based contract (effective April 1, 2000) on file with MMS.

The column in Exhibit B labeled "BID" is provided for Offerors to indicate their offers. By submission of a bid, the Offeror agrees to be bound to the terms and conditions of the GISB contract effective April 1, 2000 and this solicitation.

Offerors may telephone Karen Bigelow at the Minerals Management Service, prior to the submission of a bid to clarify issues regarding this competitive bid. Karen can be reached at (303) 275 – 7411.

Consideration of Offers

The MMS shall award contract resulting from this solicitation to the successful offeror whose bid, would in MMS' judgement be most advantageous to the Federal Government.

MMS may award a contract on the basis of initial offer(s) received, without discussions. Accordingly, each initial offer should be submitted on the most favorable terms that the Offeror can submit. However, MMS may negotiate with offerors in the event bids of similar value are received.

The Government will award to the successful Offeror by means of a Natural Gas Purchase Confirmation Notice.

PAPERWORK REDUCTION ACT STATEMENT: The Paperwork Reduction Act of 1995 requires us to inform you that the information being collected under this solicitation is necessary to document fulfillment of royalty obligations and sales of minerals from leases on Federal offshore lands. We will use this information to evaluate bids on sales of royalty production. The estimated burden to report is approximately one hour per bid and one hour per financial statement. Suggestions on reducing this burden should be directed to the Information Collection Clearance Officer; Minerals Management Service; 1849 C Street, N.W.; MS4230, Washington, DC 20240. Proprietary information submitted to the US Department of the Interior is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), The Freedom of Information Act [5 U.S.C. 552(b)(4)], and the Departmental Regulations (43 CFR 2). Storage of such information and access to it are controlled by strict security measures. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

Exhibit A: August 2000 MOPS Gas RIK Project
IFO No: MMS-RIK-2000-GOMR-004

Monthly Production (MMS share)

ING POI	FMP	Area	Block	Operator	Lease	Rate (MMS share)	Jan-00	Feb-00	Mar 00	Lateral Line	Lateral Operator
17925	3042703MP0A	MI	681	APACHE CORPORATION	0540047030	1,700	76,874	69,871	65,860	Y	APACHE CORPORATION
		MI	682	APACHE CORPORATION	0540051710						
9898	3042703MP0E	MI	687	APACHE CORPORATION	0540060520	500	16,750	17,639	15,036	Y	ENERGY RESOURCE TECH INC
		MI	688	ENERGY RESOURCE TECH	0540085480						
2410	3042702MP04	MU	757	VASTAR RESOURCES INC.	0540030190	1,500	48,954	46,962	31,718	Y	WILLIAMS FIELD SERVICE
		MU	762	VASTAR RESOURCES INC.	0540030210						
		MU	763	VASTAR RESOURCES INC.	0540030220						
17926	3042703MP07	MI	703	VASTAR RESOURCES INC.	0540037330	3,610	99,463	106,257	117,236	Y	VASTAR RESOURCES INC.
		MI	704	HOUSTON EXPLORATION CO	0540102030						
		MI	683	APACHE CORPORATION	0540132900						
		MI	709	ATP OIL & GAS CORPORATION	0540132950						
60550	3042702MP0A	MU	786	VASTAR RESOURCES INC.	0540101490	3,650	142,528	112,844	105,807	N	
		MU	787	VASTAR RESOURCES INC.	0540112210						
		MU	788	VASTAR RESOURCES INC.	0540157040						
		MU	805	VASTAR RESOURCES INC.	0540124170						
		MU	806	VASTAR RESOURCES INC.	0540101520					Y	TGP
					7543940020						
1226	3042702MP03	MU	784	EOG RESOURCES INC	0540059960	2,660	87,978	80,843	82,130	N	
62310	3042702MP0D	MU	759	EOG RESOURCES INC	0540141030	1,150	38,965	34,604	34,751	N	
58129	3042702MP09	MU	785	HOUSTON EXPL CO	0540089750	1,260	27,193	43,865	54,955	Y	HOUSTON EXPL CO
		MU	807	HOUSTON EXPL CO	0540141050						

ING POI	FMP	Area	Block	Operator	Lease	Rate (MMS share)	Jan-00	Feb-00	Mar 00	Lateral Line	Lateral Operator
452	3042703MP04	MI	685	OXY USA INC	0540045480	440	26,859	30,554	21,556	Y	OXY USA INC
		MI	686	OXY USA INC	0540034650	560	17,092	19,444	13,717	N	
328	3042703MP0G	MI	700	OXY USA INC	0540031080	500	18,935	16,100	11,398	N	
37388	3042702MP08	MU	A 16	OXY USA INC	0540030110	820	17,298	17,206	24,369	Y	OXY USA INC
896	3042703MP02	MI	664	TAYLOR ENERGY COMPANY	0540034630	150	8,247	5,682	5,564	Y	FLORIDA GAS TRANSMISSION
		MI	665	TAYLOR ENERGY COMPANY	0540034640						
					8910169380						
62309	3042703MP03	MI	631	PRIME NATURAL RESOURCES INC	0540147920	800	27,933	27,502	26,706	Y	SOUTHERN NATURAL GAS
25035	3042703MP00	MI	632	EXXON MOBIL CORPORATION	0540030910	4,100	123,134	121,446	127,583	Y	SOUTHERN NATURAL GAS
		MI	656	EXXON MOBIL CORPORATION	0540030960						
		MI	657	EXXON MOBIL CORPORATION	0540041390						
					8910202300						
25321	3042703MP0F	MI	696	EXXON MOBIL CORPORATION	0540047040	1,900	148,089	109,091	62,135	Y	SOUTHERN NATURAL GAS
3364	3042702MP00	MU	739	SONAT EXPLORATION COMPANY	0540040640	420	14,428	12,990	9,069	Y	SOUTHERN NATURAL GAS
		MU	740	SONAT EXPLORATION COMPANY	0540059800						
Totals:						25,720	977,247	909,456	809,591		

The volumes listed above are an estimate, it is provided for planning purposes.

These volumes do not include a fuel/lost and unaccounted for charge of .15%

Minerals Management Service
IFO No: MMS-RIK-2000-GOMR-004
Exhibit B

Karen Bigelow
Phone: 303 275-7411
Fax: 303 275-7124

MOPS RIK Gas Sales

August - October 2000

	Delivery Point	Volume MMBtu/D	Obligation	Bid
	Entry in NNG Line			
	Offshore MOPS System (See Exhibit A)	15,000	Base	
				Bid
	Entry in NNG Line			
	Offshore MOPS System (See Exhibit A)	10,720	Swing	
				Bid

Company Name

Your Name and Phone



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Washington, DC 20240

JUN 26 2000

OMB Control No. 0126
Expires February 28, 2003

Dear Operator:

The Minerals Management Service (MMS) has selected one or more Gulf of Mexico lease(s) that you operate to be included in a pilot project (Pilot) in which we will take natural gas royalties in kind beginning August 1, 2000. For the term of the Pilot, natural gas royalties will be taken in kind from offshore leases as defined in the Outer Continental Shelf Lands Act of 1953 (OCSLA, 43 U.S.C. 1337(g)). The purpose of the Pilot is to examine the methods and feasibility of taking natural gas royalties in kind.

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take royalty gas in kind during this project. Our authority is the Outer Continental Shelf Lands Act at 43 U.S.C. 1353 and the royalty provisions contained in your Federal lease(s). For the purposes of this letter, royalty gas means the daily Federal lease production multiplied by the lease royalty rate.

Term

The Lessor will take all royalty gas from the properties listed in the enclosure beginning on the 1st day of August 2000 and ending on the last day of the month subsequently designated by the Lessor as the date of termination. The Lessor will provide Lessee and Operator with a minimum 30-day prior written notice of termination of in-kind status and will provide a 45-day notice of termination, if possible.

Royalty-in-Kind Applicability

You must deliver all royalty gas to the Lessor from the selected leases, including royalty gas from newly producing wells on these leases or newly producing leases added to commingling agreements. Royalty gas must be placed in marketable condition at no cost to the Lessor, even if the activities required to meet this condition are performed downstream of the point where royalty gas is delivered to the Lessor. Marketable condition means the condition generally acceptable to purchasers in the field or area. Questions regarding marketable condition should be directed to the Lessor's Program Coordinator (under "Lessor Point of Contact" at the end of this letter).

The amount of any flash gas allocable to the lease obtained downstream of the Facility Measurement Point (FMP) will be included in the adjustments provided for volumetric make-up

in the subsequent month as described under "Balancing Account and Imbalances." Royalty gas delivered to the Lessor includes rights to process royalty gas to extract natural gas liquids.

Royalty Gas Delivery

The Lessor will take delivery of the royalty gas at the delivery point. The Lessee must deliver or accomplish delivery of royalty gas to the Lessor at the delivery point at the same frequency as it is produced and transported from the property. Only in the case of normal operational imbalances or subsequent month imbalance adjustments (see "Balancing Account and Imbalances") will the Lessee deliver more or less than the royalty share to the Lessor. Unless otherwise agreed, delivery will be assumed to be daily. We do not require you to process the royalty gas.

The delivery point for royalty gas produced from the selected leases is the point at which production from the properties listed in the enclosure enters the Matagorda Offshore Pipeline System (MOPS). For properties that are directly connected to MOPS, the delivery point is the FMP that is approved by MMS as the royalty settlement point. For properties that are connected to MOPS via a lateral pipeline not owned or operated by Northern Natural Gas Company, the delivery point is the downstream terminus of this lateral line where it connects to MOPS. The Lessor will have custody, possession, and responsibility for royalty gas beyond the delivery point.

Actual and reasonable transportation costs incurred for any delivery of royalty gas downstream of the FMP approved by MMS as the royalty settlement point will be reimbursed by the Lessor. To be reimbursed, you must report a transportation allowance on your Form MMS-2014 against each specific lease whose production you move downstream of the FMP.

Fulfillment of Royalty Obligations

Delivery of the accurate volume of royalty gas (taking into account the effects of normal operational imbalances) in accordance with the terms of this letter will satisfy in full the Lessee's royalty obligation to the Lessor. However, the rights, duties, and obligations that currently exist between the Lessor, Lessee, and Operator for natural gas avoidably lost prior to the FMP or gas used on or for the benefit of the lease under 30 CFR part 202 remain in effect.

All rent or minimum royalty obligations on any property in this program remain the responsibility of the Lessee. If MMS believes the Lessee owes minimum royalties, we will issue an appropriate order to pay. The Lessee will have 30 days to review the bill and make payment or appeal the bill.

Lessor Obligation to Take

The Lessor agrees to take 100 percent of the royalty gas delivered daily for the account of the Lessor or its designee at the delivery point. The Lessor, using customary industry practices set forth in GISB standards and the Council of Petroleum Accountants Societies (COPAS) White

Paper on Producer and Operator Roles and Responsibilities for nominating and scheduling transportation services, will exercise its best efforts to minimize the occurrence of imbalances with you and other Lessees. Where possible, you will use a predetermined allocation equal to the royalty rate.

Communication with Lessor

No later than 10 calendar days before the first day of each month, you must notify the Lessor of the daily royalty gas volumes anticipated for the following month of production. You may make other arrangements for timely notification only if acceptable to the Lessor. The Lessor understands that any such estimate is not a warranty of actual deliveries to be made but is provided to facilitate planning.

You must also use reasonable efforts, consistent with industry practice, to inform the Lessor regarding significant changes in gas production levels and/or royalty shares anticipated for project properties. Such communication must occur as soon as practicable after you know of such anticipated changes in production levels.

Responsibilities for Penalties

To facilitate timely and accurate custody transfer of royalty gas, you will communicate with the Lessor using customary industry practices regarding volumes of royalty gas to be nominated for movement beyond the delivery point(s). The Lessee will pay all transportation-related penalties incurred beyond the delivery point resulting from any failure of the Lessee to make royalty gas volumes available to the Lessor consistent with your communication regarding volumes to be delivered. This does not apply to normal production variances or to emergency operational situations where penalties result despite your reasonable efforts in communicating to the Lessor.

The Lessee will incur no transportation or royalty-related penalties because of the Lessor's failure to nominate or take delivery of gas volumes consistent with your communications.

Balancing Account and Imbalances (Lease Level Imbalances)

Requirements for handling imbalances are outlined below:

- Imbalances will be determined on the basis of the difference between the royalty share of production and the actual volumes delivered. These imbalances will be maintained at a lease, agreement, or FMP level. All royalty gas, including flash gas, will be balanced at the same level.
- You, as the Operator, must provide the lease imbalance statement to the Lessor point of contact no later than 45 days after the end of the month of production, unless MMS approves an alternative timeframe for submission of the statement. Your imbalance statement must specify whether quantities are reported in Mcf or MMBtu and must indicate the pressure base used in measurements.

- Deliveries for the month following the month when the imbalance statement is due will be adjusted to provide for volumetric makeup of the monthly imbalances. The volume adjustment will be made in equal amounts each day of the month, prorated to resolve the identified imbalance. In extraordinary imbalance situations, you will work together with the Lessor to reach mutually acceptable methods of imbalance resolution.
- Ordinary imbalances remaining upon cessation of the royalty-in-kind term or cessation of production will be settled on the basis of the Florida Gas Pipeline Zone 1 first-of-month price index for the final month of in-kind delivery as published in *Inside FERC*.
- The index price (net of transportation costs from the lease for the final month of delivery) will be used to value the final imbalance. The applicable over- or undertaken Lessees will report the imbalance volume and value on the Report of Royalty Sales and Remittance (Form MMS-2014) as either a positive or negative for the final month of delivery. Interest will accrue from 60 days after the final month of delivery.

Volume Reconciliations

The MMS analysts will monitor and reconcile production and volumes delivered with additional data, including pipeline data. The MMS will attempt to reconcile volumes as soon as practicable. Reconciliations will involve communication between you and the Lessor. Upon project termination, you, as the Operator, must issue a final gas imbalance statement. You will settle in accordance with the section "Balancing Account and Imbalances."

Reporting

You must continue to report natural gas production to MMS on the Oil and Gas Operations Report (OGOR) or Monthly Report of Operations (Form MMS-3160), as applicable, under current requirements and frequencies as specified in MMS regulations and the MMS *PAAS Reporter Handbook*. You will not be required to report natural gas information for the leases in this program on the Form MMS-2014 or other similar form for the term during which the Lessor takes royalty in kind, except under provisions described below in this section and under provisions described under "Balancing Account and Imbalances." Reporting and payment requirements for production and royalties for any crude oil or condensate for the leases included in this natural gas royalty-in-kind program will not change. Reporting will not change for leases not included in this program.

You must report any transportation allowances and any final imbalances on your Form MMS-2014. You will report separate entries for the allocated volume and values of transportation costs and final imbalances for each of the lease(s) identified in the enclosure. The payor code you will use for this Form MMS-2014 is your existing applicable code.

Lessor's Designee

At times, the Lessor may act by or through a duly authorized designee. In such event, the Lessor will provide you with prior written notification of the identity of its designee(s) including the

person to contact. Such notification will include specific duties that will be handled by the designee on behalf of the Lessor. The Lessor also will provide written notification to you when the designee is no longer authorized to act on Lessor's behalf for the purposes of this letter. You are authorized to communicate with the designee as specified in the notification. You will not be required to direct communications to both the Lessor and its designee. For purposes of this letter, if the Lessor notifies you that it will use a designee during the Pilot, references to the Lessor shall refer to the Lessor's designee.

The Lessor requires the designee to agree that, when acting on behalf of the Lessor, the designee must comply with all provisions of this letter that are applicable to the Lessor.

Audit Rights

The Lessor may audit your records regarding all information relevant to volumes and qualities of royalty gas produced, stored, used on the lease, measured, delivered, and, if applicable, transported. The MMS reserves the right to examine the financial records of you and the Lessees of the subject properties related to any transportation expenditures incurred prior to the delivery point.

Lessees, Operators, and revenue payors must maintain all records of transactions mentioned in the above paragraph for a period of 7 years from the day on which the relevant transaction occurred unless MMS notifies the record holder of an audit or investigation. When an audit or investigation is underway, records must be maintained until the record holder is released in writing from the obligation to maintain the records.

Lessor Point of Contact

Copies of all correspondence between Operator and Lessor should be kept on file by the Operator. Points of contact for the Lessor are as follows:

Lessor Program Coordinator:

Mr. Gregory W. Smith

Telephone: 303-275-7102; Fax: 303-275-7124

Email: gregory.w.smith@mms.gov

Imbalance Statements:

Mr. Martin Grieshaber

Telephone: 303-275-7118; Fax: 303-275-7124

Email: martin.grieshaber@mms.gov

Scheduling, Transportation, and Daily Imbalance Issues:

(MMS' gas purchaser assumes all responsibilities of the Lessor for these issues)

(MMS will notify you of its gas purchaser's point of contact)

Reporting Issues:

Ms. Karen Bigelow
Telephone: 303-275-7411; Fax: 303-275-7124
Email: karen.bigelow@mms.gov

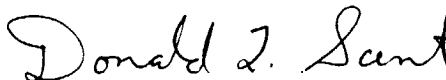
Electronic Funds Transfer:

Ms. Kathy Jarrett
Telephone: 303-231-3669; FAX: 303-231-3501
Email: kathleen.jarrett@mms.gov

The Lessor acknowledges that you have given proper notice when you communicate with the Lessor using the telephone number, fax number, or email address given above, provided any telephone communication regarding volumes is confirmed by fax or email no later than 1 business day after telephone communication occurs. The Lessor further agrees to make arrangements to receive such communications regarding gas scheduling issues on a 7-day-a-week 24-hour-a-day basis. Operators and Lessees should communicate with the above points of contact to answer any further questions.

The information being collected is an information collection approved by the Office of Management and Budget titled Directed Third Party Communication Between Operators and Purchasers of RIK, OMB Control Number 1010-0126; the OMB approval expires on February 28, 2003. The Paperwork Reduction Act of 1995 requires us to inform you that the information being collected as a result of this letter is necessary to document fulfillment of royalty obligations on minerals removed from leases on Federal lands. We will use this information to maintain and audit lease accounts, and we estimate the burden for reporting electronically is 1 hour per property per month. Comments on the accuracy of this burden or suggestions on reducing this burden should be directed to the Information Collection Clearance Officer, MS 4230, MMS, 1849 C Street, N.W., Washington, DC 20240. Proprietary information submitted to the U.S. Department of the Interior is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(b)(4)), and the Departmental Regulations (43 CFR 2). Storage of such information and access to it are controlled by strict security measures. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB number.

Sincerely,



for

Lucy Querques Denett
Associate Director for
Royalty Management

Enclosure